

Discovery Global Real Estate Securities Feeder Fund

The fund recorded a total return of 10% while outperforming the benchmark by 64bps in the second quarter. In ZAR terms, the fund rose by 7% in the second quarter, yielding an outperformance of 6% against the JSE All Share index. Year to date the fund has gained 19%, recording an outperformance of 339bps relative to the benchmark, and in ZAR terms the fund is up 16% and outperforming the JSE All Share index by 3%. Since inception the fund has risen by 51%, which culminates into an outperformance of 20% against the benchmark since the 28th of March 2017.

The quarterly outperformance was primarily driven by the first and second bites of the apple, namely country and sector allocation which cumulatively contributed 147bps to overall performance. This offset the 90bps deduction from the third bite of the apple, namely stock selection. Currency effects contributed 7bps. Our tactical overweight positioning in Europe contributed positively from a first bite standpoint, as the region rose by 10% in the quarter while outperforming the benchmark by 104bps. In the US, our underweight positioning in lodging, triple net lease and the office sector translated into positive performance attribution as the sectors underperformed the US index by 11%, 5% and 4% respectively.

The best performing stock in the quarter was Deutsche Wohnen. The German residential landlord recorded a total return of 33% and as a result outperformed the European property index by 23%, driven by the announcement of a merger agreement between Vonovia and Deutsche Wohnen in May 2021. The second and third best performing stocks were US focused self storage landlords, namely Life Storage and Extra Space Storage. During the quarter we replaced Extra Space with Life Storage on account of the latter's incrementally robust pricing power emanating from its transformed asset base. Life Storage rose 26% while Extra Space returned 24% which translated into the stocks outperforming the US self storage

index by 3% and 2% respectively. We remain overweight the US self storage sector owing to the sector's continued strength in rental growth and occupancy.

Mitsubishi Estate was the worst performing stock. The diversified Japanese developer fell 7% and underperformed the Japanese non-REITs index by 6%. City Developments, the Singaporean listed property developer, recorded a decline of 7% while the Singaporean non-REITs index fell by 2% for the quarter. The third worst performing stock was Scenter Group, the Australian owner and operator of prime retail assets, which declined by 4% and consequently underperformed the Australian property index by 7%.

We have reconfigured the portfolio towards countries that have demonstrated meaningful improvement in executing their vaccination rollout plans and are thus in the early innings of rebounding economic activity. From a second bite standpoint, we favour sectors that are supported by strong operating fundamentals. To that end, we are overweight Europe, as well as sectors enjoying favourable pricing power across the US including single family rental homes, manufactured housing, self storage and industrial property. We are underweight the structurally challenged sectors, namely US shopping centres, malls and office real estate.

**Commentary is based on USD returns, gross of investment charges, as at close of US markets (16h00 EST) on the last trading day of the month. This may differ from ZAR returns, which is shown net of investment charges, as at 15h00 CAT on the last trading day of the month.*

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